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Cutting Medicaid

States must make the least-worse budget cuts -- or consider dropping out of the program.

[Penelope Lemov](#) | December 16, 2010

It's one thing to hear Texas talk about dropping out of Medicaid -- the state occasionally mumbles about seceding from the union. But when Wyoming and Nevada start investigating the financials of opting out, and nearly a half-dozen other states mention the possibility, you know there's a major budget-balancing problem out there.

Even though states are projecting a 4.4 percent increase in general fund revenues in fiscal 2011, "a rapidly growing Medicaid population, growing pension liability and the end of extra federal Medicaid funding -- 'the cliff' as it is grimly referred to by state budgeters -- will require tough budget decisions," Ray Scheppach, executive director of the National Governors' Association, recently noted.

With just about everything that can even marginally be considered fat trimmed, budget cutters now may be forced to slash programs that are lifelines for many people.

I talked to Doug Porter, Washington state's Medicaid director, about the budget stress he's confronting, why there's talk of dropping out of Medicaid and what kind of spending cuts are likely.

It's counterintuitive that a state like Washington would consider opting out of Medicaid. What's happening?

There's no recommendation to drop out, but given my association with the Medicaid program for 20 years, it's remarkable that I'm even discussing it. Here's the context: Gov. [Christine] Gregoire, in trying to figure out what to do with a \$5.7 billion gap between expenditures and revenues, convened a 36-member citizen panel and asked them to give her ideas on what to do about cutting expenditures. I had the unenviable task of explaining to folks who weren't familiar with the Medicaid program how it works.

To cut costs, you have three options: reduce eligibility, cut rates or eliminate non-mandatory benefits. The national health-care reform law has locked all states into current eligibility levels. That is, we can't reduce eligibility to reduce expenditures by knocking people off the program. Given some recent court decisions [in our region], we can't put rates on the table. All that's left is to eliminate optional benefits to get to my target of cutting the Medicaid budget by 6.3 percent -- an across-the-board request by the governor. Even if we eliminate every single optional benefit, we still don't get there.

In presenting that information to the citizen panel, I heard a lot of frustration about judicial and federal restrictions that govern Medicaid. I told them that Medicaid is not a mandatory program in and of itself. States opt in. So, if you don't like all these restrictions on eligibility and can't cut rates, then you have to consider getting out from under those rules and restrictions.

What was the response?

I quickly told them that, while opting out might work on the acute-care piece of Medicaid, it's a whole other set of problems with the developmentally disabled and long-term care parts of the program. Plus, the hospital industry benefits from disproportionate share payments in the tens of millions of dollars. It really isn't economically feasible.

What would be the economic impact of opting out of Medicaid?

Opting out would mean the federal matching-fund money comes out of the economy. Long-term care is really what kills the deal -- especially for any state with higher than a 50 percent match rate. We would have to radically cut long-term care spending. Nursing home payments and community waiver services are 50 percent of long-term care. We would have to absorb that. We wouldn't be able to back fill all the federal money we get now. Maybe we could move a few more people out of nursing homes but by and large we would have to drastically reduce eligibility for those programs. We would make people ineligible, and there would be no safety net. Medicaid is the safety net.

The other part that kills the opt-out deal is the disproportionate share allowance. People who are still uninsured show up at hospitals, and the disproportionate care money offsets the cost of care hospitals give to those patients. The feds cover about half of that cost.

Are there savings to be had from the management side?

In times like these, some state legislators complain that Medicaid spending is out of control. But they're looking at gross dollar amounts. We've put a variety of tools in place to manage per capita costs. Over the last five years, our per capita cost inflation has averaged 3.8 percent a year. I would challenge any commercial insurer to beat that cost-containment record. In our state, the employee health fund average is closer to 8 percent, so we're less than half of that in Medicaid. What kills us is caseloads. When you have an economic downturn like we're experiencing, people are out of work, they lose insurance and they're now eligible for an entitlement program. You add 400,000 to your caseload and spending goes up. That's really the driver of Medicaid spending. It's not that the program isn't managed well.

The health-care reform law calls for an expansion of Medicaid in 2014, which will be covered by the federal government. Will that help?

Yes, but how do we get to 2014? We have a huge economic crisis staring us in the face. Ordinarily, when the economy turns down, we cut eligibility, and those people can come back when the economy turns up. But we don't have that tool. So yes, it will be more feasible in 2014 than it is now,

but here's how bad it is. We've applied for a waiver to get federal funding for our state-only Basic Health program that has 60,000 people in it and for our Disability Lifeline program with 18,000 people. We are on the verge of getting that waiver approved. Yet the governor is looking at the budget, and we may not even have the state share to put up to match those federal dollars. We may be getting a waiver we can't use.

What's going to happen?

The governor called the Legislature in for a special session on [Dec. 11]. She asked them to make some tough choices.

Yes, I see they made \$700 million in cuts to help trim a \$1.1 billion gap, with hits to higher education, K-12 schools, social services, state prisons and some health programs. How will this round of budget cutting effect cuts you have to make in your Medicaid budget?

I believe that due to the Legislature's swift action on Saturday, the pressure to make deep cuts in Medicaid has been lessened. We are preparing a new notice to go out to clients clarifying which cuts will proceed and which will be rescinded. Still slated for elimination in the current year are such things as eyeglasses, hearing aids and adult dental care.

This is the bleakest I've ever seen things in my professional career. The only good news is that revenue is not falling any further. But it's not rebounding as quickly as earlier projections had forecast. This is what we're faced with: Fiscal conditions leading to immoral choices. There's no clear path forward. You have to struggle, as the governor has struggled, with the least-worse choice you can make.

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